

VZCZCXYZ0001  
RR RUEHWEB

DE RUEHBU #0419/01 0532003  
ZNR UUUUU ZZH  
R 222003Z FEB 06  
FM AMEMBASSY BUENOS AIRES  
TO RUEHC/SECSTATE WASHDC 3568  
INFO RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/USDOC WASHDC  
RUEHRC/USDA FAS WASHDC 2089  
RUEHC/DEPT OF LABOR WASHDC  
RHMFISS/HQ USSOUTHCOM MIAMI FL  
RUEHAC/AMEMBASSY ASUNCION 5355  
RUEHMN/AMEMBASSY MONTEVIDEO 5331  
RUEHSG/AMEMBASSY SANTIAGO 4956  
RUEHBR/AMEMBASSY BRASILIA 5140  
RUEHSO/AMCONSUL SAO PAULO 2774  
RUEHRI/AMCONSUL RIO DE JANEIRO 1880

UNCLAS BUENOS AIRES 000419

SIPDIS

PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE  
EX-IM BANK FOR MICHELE WILKINS  
OPIC FOR GEORGE SCHULTZ AND RUTH ANN NICASTRI  
PASS USTR FOR SUE CRONIN  
TREASURY FOR RAMIN TOLOUI AND CHRIS KUSHLIS AND OCC  
FOR CARLOS HERNANDEZ  
USDOC FOR ALEXANDER PEACHER  
USDOL FOR ILAB PAULA CHURCH AND ROBERT WHOLEY  
HQ USSOUTHCOM MIAMI FL FOR POLAD

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [ELAB](#) [ETRD](#) [AR](#)  
SUBJECT: NEW INSIGHTS INTO INCOME DISTRIBUTION IN  
ARGENTINA

-----  
SUMMARY  
-----

¶1. Third quarter INDEC figures show that the average per capita income of the ten percent of families with the highest incomes in Argentina was 34 times higher than that of the ten percent of families with the lowest incomes. That difference in average incomes is the highest since the 2002 crisis. Income inequality in Argentina was eight percent below the average for the rest of Latin America in the late 1990s, but a number of reputable analysts have argued that Argentina no longer belongs to the low-inequality group in Latin America. Income distribution within Argentina worsened in most regions in the last 15 years. At the same time, however, the purchasing power of both the highest and lowest-income brackets rose to its highest level since the 2002 crisis. End Summary.

-----  
RECENT FIGURES ON INCOME DISTRIBUTION  
-----

¶2. The average per capita income of families comprising the ten percent of the families with the highest incomes (I+) was 34 times higher than the average per capita income of families belonging to the ten percent of families with the lowest incomes (I-). That information came from third quarter 2005 figures from the 31 most important urban areas, home to two thirds of Argentina's total population. This 34-fold difference in average incomes is the highest since the end of the 2002 crisis (see Table I). However, President Kirchner said on February 13 that income

inequality would decrease in the following quarter, although he did not specify why or cite any particular measures he was taking to that end. Minister of Economy Felisa Miceli criticized the National Statistics Bureau (INDEC) methodology to determine inequality, saying that INDEC calculations considered only monetary income, and therefore omitted free goods provided to the poor by the state, such as some medicines or food from soup-kitchens.

Table I

Per capita income in the highest income families (I+) divided by per capita income in the lowest income families (I-)

Period	I+/I-
III Q 2005	34.2
I H 2005	29.4
II H 2004	31.0
I H 2004	31.0
IV Q 2003	32.1
May 2003	33.8
Oct. 2002	34.7
May 2002	42.0
Oct. 2001	34.5
May 2001	33.1

Source: INDEC

13. In the Greater Buenos Aires (GBA) area, home to one-third of Argentina's population, the average per capita income of the top ten percent of families (I+) was 31.5 times higher than the average per capita income of families in the bottom ten percent (I-).

This difference has been decreasing since the 2002 crisis, but it is still well above the average 21-fold difference of the 1990s. (Note: Official figures on inequality could be underestimated due to income understatements by the surveyed, especially those with the highest incomes. Income understatements should not affect comparisons throughout time. End note).

#### GREATER INEQUALITY WITH GREATER PURCHASING POWER?

14. A growing inequality does not necessarily result in a deterioration of economic welfare. The high levels of inequality in 2005 coexisted with the highest purchasing power since the early 2002 crisis for both the highest and lowest ten percent brackets. The economic crisis of 2002 undermined the purchasing power of incomes in all sectors and groups. This deterioration was only overcome in 2005 (see Table II). The purchasing power of I+ was 11.1 percent higher in the third quarter of 2005 than what it was in May 2001, and the purchasing power of I- was 7.5 percent higher in the third quarter of 2005 than in May 2001.

Table II

Changes in real per capita income for the lowest and highest income families (Percent)

Period	Lowest Incomes I-	Highest Incomes I+
III Q 2005	7.5	11.1
I H 2005	3.0	-8.7
II H 2004	-2.5	-8.7
I H 2004	-6.9	-12.8
IV Q 2003	-18.4	-20.9

May 2003	-28.9	-27.6
Oct. 2002	-34.8	-31.6
May 2002	-40.7	-24.9
Oct. 2001	-6.3	-2.5
May 2001		0.0
(base)	0.0	

Source: Embassy, based on INDEC statistics

15. National income distribution was surveyed sparsely before 2000. Official surveys have covered GBA on a periodic basis since 1974, but were only extended to other important urban areas since 2001. However, private studies show that countrywide inequality remained low and constant during the 1960s and the early 1970s. Inequality increased in the second half of 1970s, remained stable in the first half of the 1980s, and increased again during the macroeconomic crisis of the late 1980s. After stabilization, inequality went down, but did not reach the same pre-crisis levels. The 2002 crisis increased inequality once again.

16. A Foundation for Latin American Research (FIEL) report showed that inequality worsened throughout the 1990s. For example, the ten percent of families with the highest incomes in GBA received 43.5 percent of all incomes in 1991, whereas they received 48.3 percent of all incomes in 1998. Income distribution in the rest of the country followed a similar pattern. General economic welfare increased during the 1990s

despite greater inequality.

17. Inequality in Argentina was eight percent below the average for the rest of Latin America in the late 1990s. At that time, Argentina was one of the Latin American countries with the most uniform income distribution, along with Costa Rica and Uruguay. However, the recent changes in Argentine income distribution differ from the regional pattern. Inequality has increased in many countries in South America but these changes have been small compared to the large changes that took place in Argentina. Reputable analysts subsequently argued that Argentina no longer belongs to the low-inequality group in Latin America.

#### ----- FACTORS AFFECTING INEQUALITY -----

18. The presence of a large middle-class helped to explain a more uniform income distribution in Argentina, but the middle-class has been decreasing as a percentage of the total population, and so has its impact. Equis Foundation demonstrated that middle-class families were 78 percent of all households in 1974, declining to 44 percent in 1985 and 29 percent in mid-2004. Equis Foundation estimated that half of the poor in late 2004 had belonged to the middle class for at least some time in the past. The Nueva Mayoria consulting firm estimated that the middle class is now only 20 percent of total population.

19. Income, as classified herein, takes the form of salaries, capital earnings and retirement payments. Analyses on the recent evolution of inequality show that inequality due to differing salaries is slightly influenced by sex, age or geographical location, and is strongly influenced by the education level, job skills and the economic sector in which the person works. Inequality among the retired increased during the 1990s. Capital earnings inequality in Argentina is not well captured by statistics, and there is little research on the issue.

-----  
REGIONAL DEVELOPMENTS  
-----

¶10. Analysts do not agree on differences in income distribution among Argentine regions or provinces due to problems related to the compatibility and comprehensiveness of the available data. However, they all conclude that income distribution worsened in most of Argentina's regions in the last 15 years. There is evidence that provincial GDP growth coexisted with greater inequality within most provinces. For some provinces, this development goes hand-in-hand with international evidence that inequality tends to increase with GDP growth for very low levels of per capita GDP, while inequality tends to decrease with GDP growth for higher levels of per capita GDP. Therefore, some researchers state that greater inequality in provinces with very low per capita GDP is inevitable in the context of growth.

-----  
COMMENT  
-----

¶11. Inequality increased during the 1990s, when the

average annual growth rate was 5 percent. Inequality increased again in 2005, when growth was estimated to be 9.1 percent. General welfare and real income increased both in the 1990s and in 2005 as a result of high growth. That correlation implies that, in Argentina at least, rising levels of income inequality do not necessarily mean that those on the lower end of the income spectrum are worse off.

¶12. To see more Buenos Aires reporting, visit our classified website at:  
<http://www.state.sgov.gov/p/wha/buenosaires>

GUTIERREZ